

**STATE OF RHODE ISLAND  
PUBLIC UTILITIES COMMISSION**

**IN RE: PROVIDENCE WATER SUPPLY BOARD'S  
APPLICATION TO CHANGE RATES**

**DOCKET NO. 4618**

**REPORT AND ORDER**

**I. Introduction**

On October 27, 2017, the Providence Water Supply Board (Providence Water) filed a request with the Public Utilities Commission (PUC or Commission) seeking to transfer \$2,394,651 from its Restricted Revenue Reserve Account to its Operating Account to cover revenue shortfalls due to reduced consumption.<sup>1</sup> On November 2, 2017, the Bristol County Water Authority (BCWA) filed an objection to Providence Water's request and on May 11, 2018, filed a supplemental objection. The City of Warwick also filed its objection on May 11, 2018.<sup>2</sup> On May 18, 2018, the Division of Public Utilities and Carriers concluded that Providence Water's revenue shortfall was indeed caused by a decline in consumption and recommended approval of Providence Water's request, as filed.

At an Open Meeting held on May 31, 2018, the Commission tabled the matter until after June 30, 2018, so it could review one full year of revenue under new rates and not base a decision on a year of blended rates, as proposed. On October 17, 2018, Providence Water filed a supplemental request that sought to transfer \$5,526,671, or the entire balance of the restricted fund, whichever was less. On January 10, 2019, BCWA renewed its objection. On January 14, 2019, the Division opined that Providence Water's filing clearly established that it met the criteria for

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<sup>1</sup> All filings in this docket are available at the PUC offices located at 90 Jefferson Boulevard, Warwick, R.I. or at [http://www.ripuc.org/eventsactions/docket/4618-PWSB-Application-FilingRequirement\\_5-16-16.pdf](http://www.ripuc.org/eventsactions/docket/4618-PWSB-Application-FilingRequirement_5-16-16.pdf).

<sup>2</sup> Warwick's objection opined that Providence Water was experiencing a structural deficit which would not be cured by a one-time transfer of funds, and that the deficits would only increase in later years.

using the funds in the restricted revenue reserve account and urged the Commission to approve Providence Water's supplemental request. At an Open Meeting held on January 14, 2019, the Commission unanimously approved Providence Water's to transfer \$5,526,671 or the entire balance of the restricted fund, whichever was less to Providence Water's Infrastructure Replacement Fund. Additionally, the Commission directed Providence Water to work with the Division and PUC staff to review national best practices for funding distribution system improvements, to benefit ratepayers.

## **II. Providence Water's Filing**

In support of its initial request on October 27, 2017, Providence Water submitted the prefiled testimony of Nancy E. Parillo, its Senior Manager of Finance. Ms. Parillo testified that Providence Water experienced a retail reduction in consumption of 6.01% in 2017 when compared to eight months of allowed consumption under Docket No 4571 and four months of allowed consumption under Docket No 4618. Retail consumption was offset slightly by a minor increase of less than 1% in wholesale consumption.<sup>3</sup> She contended that actual total consumption in FY 2016 showed a continued decline from projected consumption that reduced consumption was an ongoing trend.<sup>4</sup> In fact, while wholesale consumption fluctuates annually, it is down 10.65% from consumption levels ten years ago.<sup>5</sup>

Ms. Parillo reported a balance in the Revenue Restricted Fund as of August 31, 2017 of \$4,669,372. She further calculated the revenue shortfall from the reduced consumption to be

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<sup>3</sup> Nancy E. Parillo Test. at 2 (Oct. 27, 2017); [http://www.ripuc.org/eventsactions/docket/4618-ProvWater-TransferRequest-Parillo\(10-27-17\).pdf](http://www.ripuc.org/eventsactions/docket/4618-ProvWater-TransferRequest-Parillo(10-27-17).pdf).

<sup>4</sup> *Id.*; see Exh. NEP-2 and Exh. NEP-2A.

<sup>5</sup> Nancy E. Parillo Test. at 2 (Oct. 27, 2017).

\$2,394,651. Therefore, if Providence Water's request was approved, the transfer would reduce the balance in the Revenue Restricted Fund to \$2,274,722.<sup>6</sup>

In its supplemental filing on October 17, 2018, Providence Water increased the amount of its transfer request from \$2,394,651 to \$5,526,671, or the entire balance of the restricted revenue fund at the time the Commission approves the request. In support of this request, Providence Water offered testimony from Harold J. Smith, its rate design consultant.<sup>7</sup> Mr. Smith noted that the Commission's Order No. 20160, issued on October 12, 2010, established the requirement for a 3% operating reserve. Of this 3%, 2% was restricted and may only be used to cover shortfalls in allowed revenues upon a showing by Providence Water that the shortfall resulted from reduced consumption.<sup>8</sup>

Mr. Smith explained that Providence Water had previously requested and was granted a similar transfer of funds from its restricted revenue fund to its operating fund. This transfer of \$1,933,549 was approved in 2009, in Docket No. 3832-A. In the instant docket, Providence Water calculated the consumption shortfall and revenue impact of the shortfall in the same manner it calculated shortfall and revenue impact in Docket 3832-A.<sup>9</sup>

Mr. Smith reported that the balance in the Revenue Restricted Fund was \$5,159,437 as of September 30, 2018. He maintained that drawing down the balance in the Revenue Restricted Fund to zero, as requested, would not pose any adverse issues to Providence Water. He further asserted that there was precedent for granting a full draw-down request in Providence Water's prior request in 2009 and in 2011, for Newport Water, in Docket No. 4025-A.<sup>10</sup> Mr. Smith

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<sup>6</sup> *Id.* at 3.

<sup>7</sup> Harold J. Smith Test. at 1 (Oct. 17, 2018); [http://www.ripuc.org/eventsactions/docket/4618-PWSB-SuppRequest\(10-17-18\).pdf](http://www.ripuc.org/eventsactions/docket/4618-PWSB-SuppRequest(10-17-18).pdf).

<sup>8</sup> *Id.* at 2.

<sup>9</sup> *Id.* at 2, 5.

<sup>10</sup> *Id.* at 6-7.

contended that Providence Water’s revenue shortfall resulting from a reduction in consumption, from the time Docket No 4618 rates went into effect and the end of FY 2018, was \$5,526,671.<sup>11</sup> He claimed that the total consumption shortfall totaled 2,440,941 HCF, which is 6.9% - double the shortfall identified in the original filing of October 2017. He concluded that this reduction is an indication of the long-term trend of declining consumption.<sup>12</sup>

### **III. Intervenor Bristol County Water Authority**

The BCWA objected to Providence Water’s initial request, arguing that Providence Water’s request was a from a “mixed” year that incorporated consumption from two different dockets and was not a representative rate year. BCWA further argued that Providence Water’s request lacked evidentiary support with contradictory and unreliable evidence which did not demonstrate a correlation between consumption and revenue.<sup>13</sup> BCWA noted that Providence Water’s consumption exceeded projections in FY 2011, 2012, 2014 and 2015, but Providence Water’s revenues did not increase. Therefore, BCWA argued that Providence Water cannot meet its burden of proof that its revenue shortfall resulted from reduced consumption.<sup>14</sup>

BCWA also argued that Providence Water’s request should be denied because Providence Water provided unreliable evidence on how the transferred funds will be used.<sup>15</sup> BCWA noted that Providence Water originally stated that the funds would be transferred to its Operating Fund, but that in response to data request BCWA 4-1 (a), Providence Water stated that the money from the Restricted Revenue Fund would first be used to fund restricted accounts that have gone unfunded due to the reduction in consumption. Providence Water further responded that the unused balances

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<sup>11</sup> *Id.* at 7.

<sup>12</sup> *Id.* at 8.

<sup>13</sup> BCWA Objection at 3 (May 11, 2018); [http://www.ripuc.org/eventsactions/docket/4618-BCWA-SuppObjection\(5-11-18\).pdf](http://www.ripuc.org/eventsactions/docket/4618-BCWA-SuppObjection(5-11-18).pdf).

<sup>14</sup> BCWA Objection at 6 (Jan. 10, 2019); [http://www.ripuc.org/eventsactions/docket/4618-BCWA-Objection-PWSB-TransferFunds\(1-10-19\).pdf](http://www.ripuc.org/eventsactions/docket/4618-BCWA-Objection-PWSB-TransferFunds(1-10-19).pdf).

<sup>15</sup> *Id.* at 2, 3.

in these accounts would remain subject to PUC oversight. BCWA countered this response by expressing concern with the disposition of the reserved funds, given the City of Providence's need for a lump-sum monetization or annual long-term revenue stream, or some combination of the two, to address the City's long-term pension liabilities.

#### **IV. The Division of Public Utilities and Carriers**

The Division reviewed both Providence Water's initial filing of October 2017 and its supplemental filing of October 2018. The Division noted that the criteria for utilization of funds in a revenue reserve account was established by the Commission in its Report and Order No. 20160 in Docket No. 4061. That order provided: "Two percent (2%) of the reserve shall be restricted and may only be used to cover shortfalls in allowed revenues upon a showing by Providence Water Supply Board that the shortfall resulted from reduced consumption."<sup>16</sup> Providence Water represented in its original filing that that consumption for FY 2017 was 25,261,135 HCF. The Division found that this amount agreed with the amount reported in Providence Water's annual report. This resulted in a shortfall of 711,182 HCF, when compared to the Commission allowed HCF of 25,972,317. The Division noted that there had been a rate change during fiscal year 2017, so Providence Water had calculated its allowed consumption using a blended figure for the number of months in which each docket was in effect for that year. Providence Water calculated a revenue shortfall of \$2,394,651.<sup>17</sup> Division staff reviewed the filing in detail and recalculated the amounts included in the filing. The Division verified the accuracy of the calculations and agreed with Providence Water's representations. The Division opined that Providence Water had met the criteria established in Docket No. 4061 and recommended approval.

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<sup>16</sup> PUC Order No. 20160 at 20 (Oct.12, 2010); [http://www.ripuc.org/eventsactions/docket/4061-PWSB-Ord20160\(10-12-10\).pdf](http://www.ripuc.org/eventsactions/docket/4061-PWSB-Ord20160(10-12-10).pdf).

<sup>17</sup>Patricia Smith Memo at 1 (May 18, 2018); [http://www.ripuc.org/eventsactions/docket/4618-DIV-Memo\(5-18-18\).pdf](http://www.ripuc.org/eventsactions/docket/4618-DIV-Memo(5-18-18).pdf).

At its Open Meeting on May 2018, the Commission tabled the matter until the completion of a full year under the new rates. The Division then reviewed Providence Water's supplemental filing including the accuracy of Providence Water's calculations and its responses to data requests. In the responses to data request PUC 2-4, Providence Water stated that whatever amount is authorized for transfer will be transferred to Providence Water's infrastructure replacement (IFR) fund which is owed \$9.1 million. In January 2019, the Division again opined that the Providence Water's filing clearly showed that it met the established criteria for using funds in the Revenue Reserve Fund.<sup>18</sup>

## **V. Commission Findings**

At an Open Meeting held on January 14, 2019, the PUC concurred with the Division's opinion that a transfer of funds to the IFR account will provide ratepayers with both near and long-term benefits and that Providence Water's proposal was in the best interest of ratepayers. The Commission expressed concerns regarding Providence Water's ability to fund distribution improvements in the face of declining revenue. The Commission determined that Providence Water's filing established it had met the criteria for transfer established in PUC Report and Order No. 20160, and unanimously voted to approve the transfer to the IFR fund.

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<sup>18</sup> Division Memo (Jan. 14, 2019); [http://www.ripuc.org/eventsactions/docket/4618-DIV-Memo\\_1-14-19.pdf](http://www.ripuc.org/eventsactions/docket/4618-DIV-Memo_1-14-19.pdf).

Accordingly, it is hereby

(23924) ORDERED:

1. The Providence Water Supply Board may transfer \$5,526,671 or the entire balance of the restricted fund, whichever is less, to its Infrastructure Replacement Fund.
2. The Providence Water Supply Board shall work with Division and PUC staff to review national best practices for funding distribution system improvements with declining utility revenues, in ways to benefit ratepayers.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JANUARY 14, 2019 PURSUANT TO AN OPEN MEETING HELD JANUARY 14, 2019. WRITTEN ORDER ISSUED OCTOBER 8, 2020.

PUBLIC UTILITIES COMMISSION

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\*Margaret E. Curran, Chairperson



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Marion S. Gold, Commissioner



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Abigail Anthony, Commissioner

\*Chairperson Curran concurred with the decision but is unavailable for signature.

**NOTICE OF RIGHT OF APPEAL:**

Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.